Fishery Products International

Annual Report 1986

Fishery Products International

Fishery Products International (FPI) is a vertically-integrated seafood harvesting, processing and marketing company. The Company holds the largest fish allocations off Canada's Atlantic Coast, which it harvests with a fleet of 66 deepsea vessels. FPI operates 19 processing plants in Newfoundland, Nova Scotia and Massachusetts, employing 8,600 people and purchasing fish from 2,500 independent Newfoundland fishermen.

Fishery Products International is the largest foreign supplier of seafood to the United States and is expanding its presence in the Canadian, European and Japanese markets. FPI is a public company listed on the Toronto and Montreal stock exchanges.

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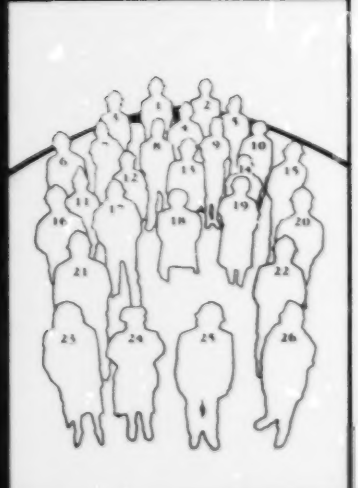


Cover Photo: A group of FPI employees on board the M/V Atlantic Ruthann.

1 Max Hollett
Trawler Manager
Grand Bank/Fortune

2 P.J. Curran
Marketing Manager
Danvers

3 Floyd Pittman
Discharge Worker
Cooks Harbour

4 Sandra Holloway
Production Supervisor
Charleston

5 Henry Skinner
Weigher
Ramea

6 Howard Dimmer
Cook
M/V Zermatt

7 Judy Patey
Packer
St. Anthony

8 Russell Worthing
Scallop Fisherman
Riverport

9 Linda Street
Crab Processing
Bonavista

10 Jan Pratt
Quality Assurance
Danvers

11 Dianne Reid
Caplin Processing
South Dildo

12 Ruby Grandy
Cutter
Marystown

13 John Killoy
Captain
M/V Atlantic Ruthann

14 Patricia Fleming
Secondary Processing
Burin

15 Mervin Short
Plant Cleanup
Triton

16 Keith Lundrigan
Millwright
Burin Refit

17 Jim Alexander
Machine Operator
Catalina

18 Norma Jones
Secondary Processing
Boston

19 Sharon Atkins
Shrimp Processing
Port au Choix

20 John Follett
Plant Maintenance
Trepassey

21 Pius Antle
Chief Engineer
M/V Zambezi

22 Cecil Caines
Fishmeal Worker
Fortune

23 Judy Caul
Industrial Relations
St. John's

24 Ruby Simms
Trimmer
Gaultois

25 John Carter
Plant Manager
Harbour Breton

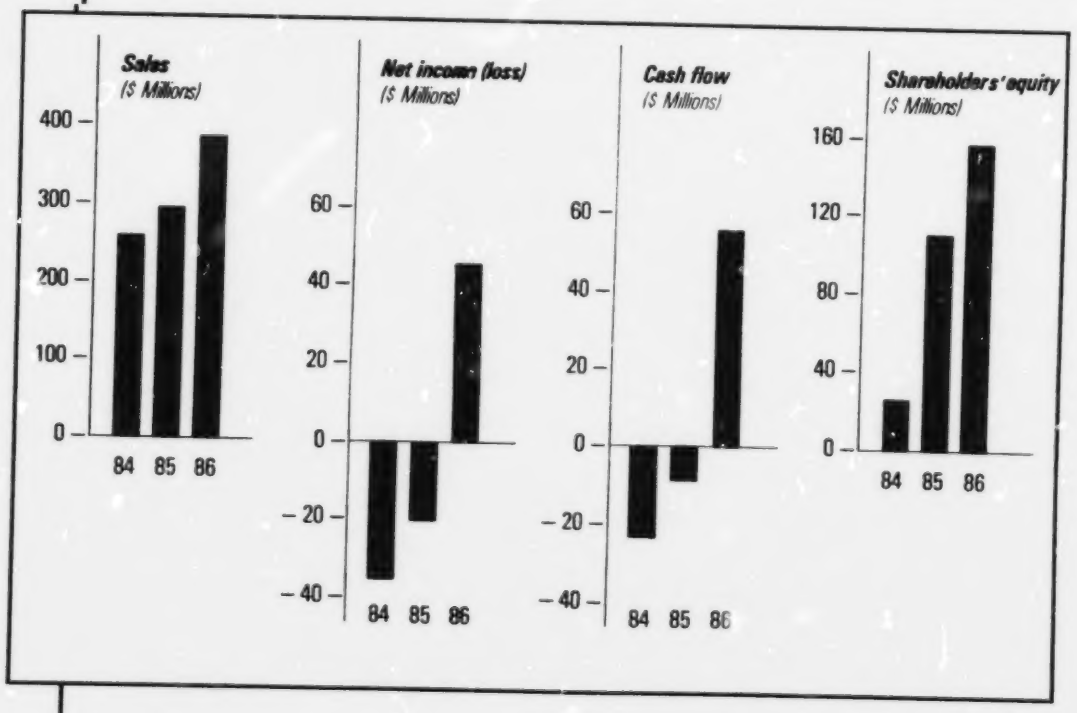
26 Alberta Porsey
Quality Assurance
Grand Bank

Financial Highlights

Years ended December 31
(Thousands of dollars except per share data)

	1986	1985	1984
Financial Summary:			
Sales	**388,664**	298,182	260,366
Income (loss) before extraordinary items	**22,330**	(20,160)	(35,064)
Net income (loss)	**46,596**	(20,160)	(35,064)
Cash flow (1)	**56,731**	(8,357)	(23,585)
Working capital	**55,404**	41,192	(30,451)
Long-term debt	**14,471**	24,531	32,722
Shareholders' equity	**158,370**	111,774	26,934
Per Common Share (2):			
Income (loss) before extraordinary items	**1.40**	(1.26)	(2.19)
Net income (loss)	**2.91**	(1.26)	(2.19)
Cash flow (1)	**3.55**	(0.52)	(1.47)
Book value	**9.90**	6.99	1.68

(1) Cash flow from operations before net changes in non-cash working capital balances.
(2) After giving effect to the issue of 16 million Common Shares on April 15, 1987.



Report to Shareholders

Remarkable 1986 Performance

Over the past year the 8,600 people of Fishery Products International have turned in a remarkable performance which is clearly reflected in our 1986 financial results. During the year, FPI achieved one of the most significant financial turnarounds in Canada with a net income of $46.6 million ($22.3 million before extraordinary items). This result compares

Victor Young,
Chairman and
Chief Executive Officer.

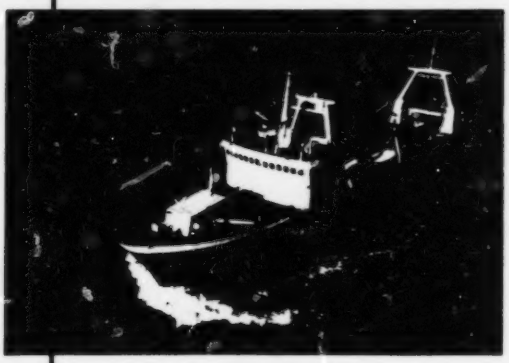
with a net loss of $20.2 million in 1985 and formed the foundation of our return to the private sector. Earnings per common share in 1986 amounted to $2.91 ($1.40 before extraordinary items) compared with a prior year loss of $1.26.

Sales during 1986 reached a new high of $388.7 million, an increase of 30 percent over 1985. Seafood consumption in FPI's most important market, the United States, reached a record level due to the prominence of seafood in today's lighter, leaner diet. The higher rate of seafood consumption, combined with declining international supplies, resulted in a 23 percent increase in prices during 1986. Seafood markets remain buoyant with consumption and prices firming at these record high levels.

Productivity at FPI's 16 primary processing plants showed significant improvement over that of 1985. Higher finished product yields and lower direct labour costs favourably impacted net income by $9.5 million and $4.5 million, respectively. Together with our measures to improve productivity, our Company continued to focus on producing quality seafood products. Sales of value-added products, produced at our three secondary processing plants, increased by 17 percent.

FPI, through its enterprise allocations, benefits from Canada's prudent management of its fishing resource. During 1986, our fleet of 66 deepsea vessels harvested 288.8 million pounds of the fish resource from our offshore fishing allocations and purchased a further 76.9 million pounds of fish from independent inshore fishermen. The scientific management of the resource is vital to our future and our Company strongly supports conservation measures which will lead to long-term growth in the Canadian fisheries.

A $7.3 million reconstruction and modernization program at FPI's Burin secondary processing facility commenced in 1986. This state-of-the-art facility will supply value-added products to our expanding markets in Canada, Europe and Japan. In addition, FPI invested a further $34.5 million in its plants, vessels and port facilities during the year. Included in this investment was the containerization of seven additional vessels, which has been instrumental in improving the quality of our finished products. During the year FPI continued its fleet modernization program with the reconstruction of the "Newfoundland Falcon" and "Newfoundland Eagle" at a total cost of $8.0 million, as well as the $2.0 million acquisition of the "Newfoundland Challenge".



M/V Newfoundland Lynx, FPI's recently acquired freezer trawler.

Late in the year, our Company purchased its first freezer trawler, the "Newfoundland Lynx", at a cost of $7.3 million. This vessel has been ice-strengthened and modernized, enabling us to harvest valuable allocations of northern shrimp and ocean perch. The increasingly important Japanese market will be the primary outlet for the production from this vessel.

Instrumental to all of the accomplishments at FPI during 1986, was the dedication and commitment of our team of 8,600 employees. In recognition of the efforts of our employees, FPI established a profit sharing program whereby ten percent of pre-tax income ($4.9 million in 1986) will be set aside for the benefit of all employees either as direct cash payments or as contributions to future pension benefits. In addition, our Company continued to commit resources to enhance our training and safety programs as well as our overall educational efforts during the year.

Return to Private Sector

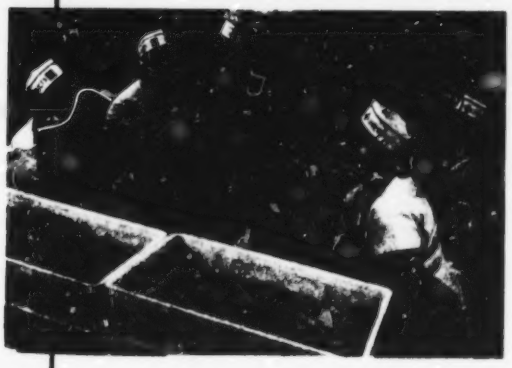
This is our first Annual Report to Shareholders since the successful return of FPI to the private sector accomplished on April 15, 1987. Consequently, this is a Report combining the year-end results to December, 1986 with an important update on the completion of our privatization strategy. Phase one of this strategy was successfully implemented prior to the end of 1986 with the sale of 14 inshore plants to independent fish processors. The sale of these plants enabled us to rationalize the organization and move forward with our plans to privatize the entire operation.

During 1986 our plans for an initial public offering of shares were formulated. These plans were approved in late 1986 and implemented in early 1987. The ultimate measure of our success was the completion of a $177.0 million issue of common shares which was very well received by investors in Canada and Europe. All of the previous ownership of the Governments of Canada and Newfoundland was purchased with the proceeds of this public offering and FPI was able to move forward as a private sector company operating without any real or perceived government ownership.

Our commitment to employees was an integral part of our privatization strategy. FPI distributed 560,000 common shares to all of our employees in an unprecedented action in the Atlantic fishing industry. The shares had an initial value of $7.0 million. During the early months of trading, however, FPI's shares have consistently been valued between $15.50 and $16.00 per share, bringing the market value of these shares to approximately $9.0 million. In addition, our Company established an Employee Share Purchase Plan to enable employees to increase their equity participation in FPI in future years.

In presenting our case to the international financial community we made it clear that FPI would remain a positive economic and social force in Newfoundland. We also indicated that the philosophy of FPI was to be the number one seafood company in the world through profits and people. It is only through the major efforts of a highly productive workforce, concentrating on premium quality products at sea and on land, that FPI will remain a profitable world-class performer. In turn,

our profitable performance will enable us to invest significantly in our fleet, plants and port facilities for the long-term benefit of our shareholders and employees.



Employees processing individually quick frozen fillets at FPI's processing plant in Fortune, Newfoundland.

Consistent with our "profits and people" philosophy, we are determined that FPI will be recognized by our customers as the world's finest supplier of seafood and by our people as the best possible corporate employer. We will continue to build upon our excellent performance in 1986 to ensure the long-term viability and success of our operations, thereby satisfying the expectations of our shareholders for a reasonable return on investment.

We are also committed to enhancing the value of our Company through growth and diversification in the seafood industry. The results of the last two years give us a tremendous degree of confidence that we are making great progress as we chart new waters toward a better and brighter future.

On Behalf of the Board,

Victor L. Young
Chairman and Chief Executive Officer

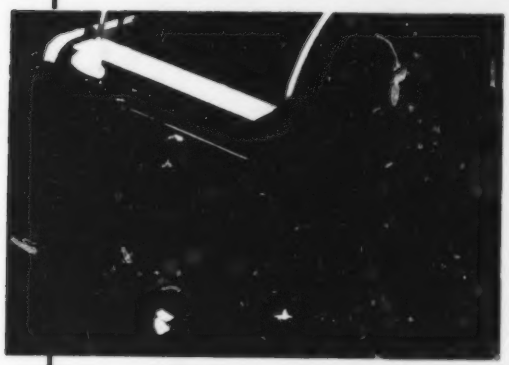
E.P.I.

Harvesting

During 1986, FPI's fleet of 58 trawlers harvested 286.9 million pounds of the world's finest quality cod, flounder, sole, ocean perch, turbot, haddock and halibut. The return to year round operations, combined with the $10.4 million investment in the ice-strengthening of 19 deepsea trawlers, resulted in the fuller utilization of the Company's valuable resource allocations.

At sea, the Company undertook a number of initiatives to achieve upgrading in the quality of its harvest. During the year, FPI installed a containerized storage system on seven vessels bringing the total to thirteen. As a further quality enhancement measure it continued a program to modernize and upgrade the factory decks on board its vessels. These initiatives have also contributed to improved productivity in the processing plants.

The Company's port infrastructure was substantially modernized during the year. The $5.9 million redevelopment of the vessel refit center at Burin was commenced and is scheduled for completion in the fall of 1987. In addition, the $3.5 million upgrading of the port facilities at the Marystown plant was begun. These major investments will further assist the Company in its effort to improve the productivity and maintenance of its fleet operations.



Refit employees at Burin installing new fishing equipment on board a Company trawler.

The FPI fleet of eight offshore scallop draggers based in Riverport, Nova Scotia harvested 1.9 million pounds of sea scallops in 1986, an increase of 27 percent over 1985. In June, the Department of Fisheries and Oceans, in consultation with the industry, established enterprise allocations for the major stock of scallops on Georges Bank off the southwest coast of Nova Scotia. During the year, the Company invested $1.4 million to convert two side trawlers for use as scallop draggers. These vessels have been a welcome addition to the fleet. FPI's 1987 enterprise allocation has been increased by a further 45 percent, an amount which will significantly increase the productivity of the scallop fleet.

The relatively low harvests in the inshore fishery during the past two years are a cause of concern for the Company as this is the primary source of supply for some of its processing plants. During 1986, FPI purchased 76.9 million pounds of groundfish, capelin, shrimp and crab from 2,500 independent inshore fishermen, representing approximately 20 percent of our total raw material supply. The Company will continue to be an active participant in the Newfoundland inshore fishery as it is dependent upon it for the maintenance of a diversified product line.

Morley Tippett, discharging containers of quality fish from the M/V Zandvoort.

In response to the disappointing performances of the inshore fishery, and following extensive consultation with the industry, the Department of Fisheries and Oceans introduced new conservation measures which reduced the 1987 Canadian quotas by 5.6 percent. FPI is cognizant of the issues which led to these measures and is firmly committed to a policy of supporting scientifically-based conservation measures which will lead to the long-term growth of the fish resource for the benefit of all participants.

Processing

Productivity at FPI's 16 primary processing plants showed dramatic improvement during 1986. Finished product yields throughout these plants were increased by approximately five percent, resulting in additional production of 5.5 million pounds which favourably impacted net income by $9.5 million. Unit direct labour costs were reduced by eight percent, or $4.5 million, during the year. The dedication and commitment of the Company's employees, combined with improvements to its raw material quality, were instrumental in achieving this higher productivity.

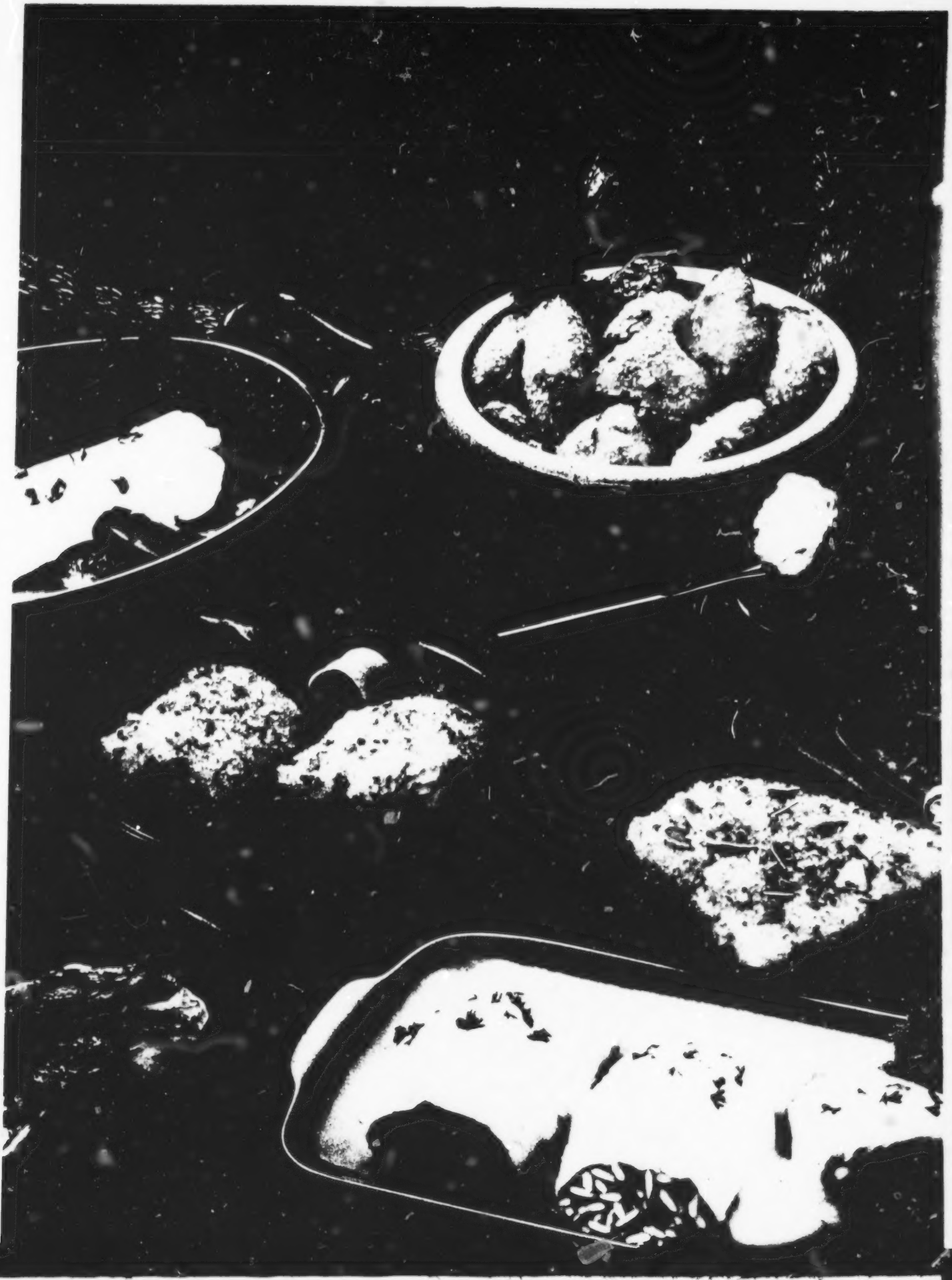
Employees on a packaging line at FPI's processing plant in Catalina, Newfoundland.

During the year, the Company successfully completed a rationalization of its plant operations with the divestiture of 14 inshore-based processing facilities. Production at the remaining 16 primary processing plants, which are concentrated in the offshore fishery or are specialized in other species, reached a level of 132 million pounds, an increase of five percent over 1985 production levels at all plants.

FPI's three secondary processing plants in Newfoundland and the United States continued to produce award-winning value-added seafood products. During the year, production at these facilities increased by 13.7 percent to 39.5 million pounds. Microwave tempering and portion-control processing are utilized at the Company's secondary processing plants to ensure that premium quality is maintained throughout the process.

Reinvestment in processing plants remains a high priority for FPI, as capital expenditures throughout all of its plant operations amounted to $11.7 million in 1986. Of this amount, expenditures aimed at improving productivity and enhancing product quality amounted to $3.4 million. The construction of the new secondary processing plant at Burin was commenced in 1986 and completed in June, 1987 at a cost of $7.3 million.

Van Nguyen processing "Sea Nuggets" at our Danvers, Massachusetts plant.



In the competitive international seafood markets, FPI's reputation for quality is unsurpassed. At each step in the process, the team of 8,600 people is committed to exceeding the rigid quality standards demanded by its customers. Continued quality consciousness will maintain the Company's competitiveness and ensure its future success.

Marketing

FPI is a leading marketer of premium quality seafood to worldwide markets. Marketing is conducted through a distribution and brokerage network covering the entire United States and Canada, as well as offices and agents throughout other key seafood markets in the United Kingdom, France, Switzerland, West Germany, Sweden, Australia and Japan.

Marketing executives reviewing a strategy for our latest award-winning product.

The world's markets for seafood, particularly those of the United States, are experiencing continued growth and development. The consumer trend toward lighter, leaner eating habits and the recognition of the nutritional value of seafood is resulting in burgeoning demand and record prices. Consumption in the United States reached a record level of 14.7 pounds per capita in 1986, an increase of 20 percent in five years. This higher demand, combined with stable international supplies of seafood, resulted in a 23 percent increase in prices for FPI products during the year.

The United States is FPI's principal market, representing 80 percent of the Company's $390 million in sales. The Company is the largest foreign supplier of seafood to this market, where it concentrates its marketing in the larger foodservice segment comprised primarily of restaurants and large institutions. FPI's wholly-owned subsidiary in the United States, Fishery Products Inc., was recognized as a market leader in this segment as it was chosen Number One Frozen Fish and Seafood Supplier for the second consecutive year in an independent poll of foodservice users.

In Canada, the Company is developing a strategy to substantially increase its presence in the retail segment through active promotion of its value-added products. The new secondary processing plant at Burin, Newfoundland, will provide this market with a line of battered, breaded and prepared gourmet seafood products.

FPI produces a broad line of premium quality seafood products.

The Company's experienced research and development staff is constantly working on developing value-added seafood products. During 1986, FPI's

research and development efforts were acknowledged as the Company was awarded with "New Product of the Year" for the third time since 1983. In addition, "Sea Strips" were added to the highly successful fingerfood line and a new generation of premium cod fillets, "Imperial Cod", was developed for top-of-the-line white tablecloth restaurants. FPI's focus on new product development enables it to quickly respond to changing consumer trends.

The seafood industry is at the dawn of an era of opportunity unmatched in its history. With growing interest and worldwide publicity generated about seafood's great taste and numerous health benefits, consumption is increasing. The future appears bright for one of the world's leading protein sources. It is in this environment that Fishery Products International is looking toward continued success for the future.

FPI's People — Partners in Success

The success of FPI is more than anything else, a credit to the team of 8,600 employees who, working together, give the Company life and meaning.

In late 1985, FPI committed to achieving profitable performance in 1986, following years of heavy financial losses. In the first edition of the Company's newsletter, "Soundings", a challenge was issued to all employees to honour this commitment. Each and every one of FPI's people rose to the challenge and achieved an outstanding turnaround of $70 million.

Personal development of employees is a high priority at FPI.

With the challenge of achieving a turnaround came a promise to share the rewards with all employees so that they could benefit from the success of the Company. In December 1986, FPI implemented a policy whereby ten percent of pre-tax operating income would be distributed to all employees. This amounted to $4.9 million in 1986, of which $3.8 million was paid in cash and $1.1 million was provided as seed money for future pension benefits.

"Partners in Success."

During the year, FPI intensified its efforts to improve the workplace environment. The Company implemented a comprehensive "Accident Prevention and Loss Control Program" designed to enhance safety awareness and improve working conditions. As a result, accidents in FPI's operations have been reduced by 33 percent over the past year.

The Company has reinvested over $50 million during the past two years to modernize its fleet, plants and port facilities. As part of its continuing capital expenditure program the Company plans to invest a further $100 million over the next three years. This reinvestment directly affects all of FPI's operations and demonstrates the Company's intention to ensure the long-term profitability and competitiveness of its operations for the benefit of all employees.

Consistent with its commitment to personal development of employees, the Company broadened its program of continuing education. In-house training and education during the year included programs covering safety, management skills, quality assurance and management information systems. Financial support was also provided to many employees for work-related classroom studies. In addition, new industrial relations committees were formed to consult with employees on such important issues as technological change and productivity improvements.

FPI intends to build upon the significant accomplishments of 1986 and to maintain its role as the leading employer in the Canadian fishing industry. Through our ongoing efforts, the partnership among our 8,600 people will be strengthened to ensure that FPI achieves its goal of being the number one seafood company in the world through "profits and people".

Consolidated Financial Statements

Management's Responsibility for Financial Reporting

The accompanying financial statements were prepared by management in accordance with accounting principles generally accepted in Canada and include some amounts based upon management's best estimates and judgements.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to provide reliable accounting records.

The shareholders' auditors have performed an independent examination and attested to the fairness of presentation of financial data contained in these statements in accordance with generally accepted accounting principles. Their examination was made in accordance with generally accepted auditing standards and accordingly included an evaluation of the Company's system of internal control to determine audit scope and such tests of the accounting systems and records and other audit procedures as they deemed necessary.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and for approving the financial statements. The Board has established an Audit Committee of the Board, which is composed of directors, who meet periodically with management and the external auditors to ensure that their responsibilities are properly discharged, to review the financial statements prior to their approval by the Board and to consider recommendations of the external auditors for improvements in internal controls, and the actions of management to implement such recommendations.

On Behalf of the Company

Victor L. Young
Chairman and
Chief Executive Officer

David G. Norris
Executive Vice-President
Financial Management

February 9, 1987

KPMG Peat Marwick

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of FPI Limited (formerly reporting under the name of Fishery Products International Limited) as at December 31, 1986 and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1986 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the previous year.

Peat Marwick

Chartered Accountants

St. John's, Canada, January 30, 1987
(except for Note 18 (d) which is at March 24, 1987

Consolidated Balance Sheet

As at December 31

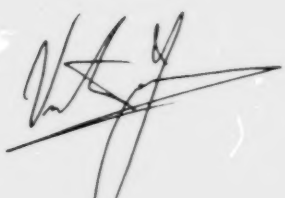
FPI Limited (Note 8 (b))
(Formerly reporting under the name of Fishery Products International Limited)

	1986	1985
	(thousands of dollars)	
Assets		
Current assets:		
Cash and temporary investments	**26,057**	3,205
Accounts receivable (Note 3)	**31,607**	39,493
Inventories:		
Finished goods	**34,493**	44,937
Materials and supplies	**12,623**	15,626
	47,116	60,563
Prepaid expenses	**1,835**	2,004
	106,615	105,265
Fixed assets (Note 4)	**115,554**	93,106
Other assets (Note 5)	**1,883**	2,007
	224,052	200,378

See accompanying notes to consolidated financial statements.

	1986	1985
	(thousands of dollars)	
Liabilities		
Current liabilities:		
Bank indebtedness (Note 6)	—	119,226
Less subscriptions receivable (Note 8 (a))	—	105,000
	—	14,226
Accounts payable	**17,774**	11,023
Accrued liabilities	**28,596**	27,116
Current portion of long-term debt (Note 7)	**4,841**	11,708
	51,211	64,073
Long-term debt (Note 7)	**14,471**	24,531
	65,682	88,604
Shareholders' Equity		
Capital (Note 8)	**166,998**	166,998
Deficit per accompanying statement	**8,628**	55,224
	158,370	111,774
	224,052	200,378

On behalf of the board:



Victor L. Young
Director

James J. Greene
Director

Consolidated Statement of Income

Year ended December 31

FPI Limited (Note 8 (b))
(Formerly reporting under the name of Fishery Products International Limited)

	1986	1985
	(thousands of dollars)	
Sales	388,664	298,182
Direct cost of goods sold	214,264	190,500
Contribution margin	174,400	107,682
Overhead and distribution expenses	86,763	83,197
Gross profit	87,637	24,485
Selling and administrative expenses	23,166	22,367
Depreciation and amortization	12,312	11,803
Interest on long-term debt	3,652	3,233
Other interest (revenue)	(510)	9,337
Loss (gain) on translation of accounts of foreign subsidiaries	367	(2,095)
	38,987	44,645
Income (loss) before the undernoted	48,650	(20,160)
Provision for profit sharing (Note 9)	4,865	—
Income (loss) before income taxes and extraordinary items	43,785	(20,160)
Income taxes (Note 10)	21,455	—
Income (loss) before extraordinary items	22,330	(20,160)
Extraordinary items (Note 11)	24,266	—
Net income (loss) for the year	46,596	(20,160)

Consolidated Statement of Deficit

Year ended December 31

	1986	1985
	(thousands of dollars)	
Deficit at beginning of year	55,224	35,064
Net income (loss) for the year	46,596	(20,160)
Deficit at end of year	8,628	55,224

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

Year ended December 31

FPI Limited (Note 6(a))
(Formerly reporting under the name of Fishery Products International Limited)

	1986	1985
	(thousands of dollars)	
Operating activities:		
Income (loss) before extraordinary items	22,330	(20,160)
Add items not affecting working capital:		
Depreciation and amortization	12,312	11,803
Income taxes	21,184	—
Other	905	—
Cash provided by (used in) operations before the undernoted	56,731	(8,357)
Net changes in non-cash working capital balances relating to operations	22,576	(25,606)
Cash provided by (used in) operations	79,307	(33,963)
Investing activities:		
Additions to plant and equipment	(35,618)	(17,769)
Proceeds on sale of plant and equipment	6,702	2,176
Acquisition of net assets of Triton Seafoods Limited	(2,788)	—
Increase in other assets	(755)	(1,216)
Changes in balance payable for equipment purchases	7,157	2,698
Cash applied to investing activities	(25,302)	(14,111)
Financing activities:		
Equity provided by parent company	—	105,000
Repayment of long-term debt	(16,927)	(9,831)
Cash provided by (applied to) financing activities	(16,927)	95,169
Increase in cash during year	37,078	47,095
Cash and cash equivalents (bank indebtedness), beginning of year	(11,021)	(58,116)
Cash and cash equivalents (bank indebtedness), end of year	26,057	(11,021)

See accompanying notes to consolidated financial statements.

Notes To Consolidated Financial Statements

December 31, 1986

FPI Limited (Note 8 (b))
(Formerly reporting under the name of Fishery Products International Limited)

1. Basis of Presentation

(a) Background information —
Fishery Products International Limited (the "Company") was formed on December 31, 1984 through the amalgamation of twelve companies ("amalgamating companies") which had been involved in the fishing industry of Atlantic Canada.

These consolidated financial statements include the accounts of the Company and those of its active wholly-owned subsidiaries. Certain immaterial non-operating wholly-owned subsidiaries are not consolidated in these financial statements and the Company's investment therein is carried at cost.

In 1986, the Company, which owned 50% of the voting shares of Triton Seafoods Limited, acquired the remaining outstanding shares for $1. The assets obtained had a book value of $5,437,504 and the liabilities assumed a value of $3,032,014. The excess of net book value over purchase price paid, $2,405,489, has been treated as a writedown of fixed assets in these consolidated financial statements. This acquisition has been consolidated from January 1, 1986.

(b) Valuation —
As a result of the acquisition of the amalgamating companies by a common parent company and applying accounting principles appropriate for business combinations, capital includes adjustments arising from the deficit accumulated by and attributable to the predecessor companies and from the difference between the estimated value of the net fixed assets acquired and their value as recorded in the predecessor accounts. These adjustments have been reflected in capital as a reduction of the Company's paid up capital and contributed surplus.

The amount paid by the parent was allocated to the assets of the Company based on a valuation made by management of the tangible assets acquired and liabilities assumed.

As part of this valuation, management reviewed the fixed assets and the amounts at which they had been recorded in the predecessor accounts. Based on its business plan and other factors, the carrying values of the fixed assets were adjusted to the estimated values attributed to them by management and this adjustment has been reflected with effect as at January 1, 1984.

(c) FPI Limited —
As more fully explained in Note 8 (b), subsequent to December 31, 1986 there was a change in ownership of the Company, one of the results of which was to continue the business of the Company under a new holding company, FPI Limited.

2. Accounting Policies

The significant accounting policies of the Company and its consolidated subsidiary companies are set out below. These policies are in accordance with Canadian generally accepted accounting principles applied on a consistent basis.

Foreign currency translation —
Assets and liabilities stated in other currencies, together with the accounts of all foreign subsidiaries, which are all considered to be integrated subsidiaries, are translated into Canadian dollars as follows:

- Monetary assets and liabilities — at period-end exchange rates.
- Non-monetary assets and depreciation expense — at historic exchange rates.
- Revenues and expenses (other than depreciation and amortization) — at average exchange rates for the period.

Gains and losses on translation of foreign currencies are reflected in income except those related to long-term debt which are deferred and are being amortized over the remaining life of the debt.

Inventory valuation —
Inventories of finished goods are valued at the lower of direct cost and net realizable value. Inventories of operating materials and supplies are valued at the lower of cost and replacement cost. Cost has been determined on a first-in, first-out basis.

Fixed assets —
Fixed assets which were owned by the amalgamating companies and their subsidiaries, are stated at a value determined in accordance with Note 1(b). Subsequent fixed asset additions are carried at cost. Fixed assets include certain leases which in substance are purchases of fixed assets capitalized at the present value of their net minimum lease payments.

Depreciation is provided on a straight-line basis over the following estimated useful lives:

	Assets owned at December 31, 1983	Additions subsequent to December 31, 1983
	(years)	
Buildings and wharves	11-38	25-40
Machinery and equipment	4-18	10-20
Vessels and equipment	1-18	17-25
Leaseholds	10-11	

Provision for vessel refits —
A provision of $12,600,000 at December 31, 1986 ($11,400,000 at December 31, 1985) has been made for the estimated future cost of refitting certain of the Company's vessels. The provision is based on the estimated cost of future refits and is accrued over the period between refits.

Leases —
Leases are classified as either capital or operating. Capital leases are those which transfer substantially all of the benefits and risks of the ownership of property, and are recorded as the acquisition of an asset and the incurrence of an obligation. The asset is amortized over its useful life and the obligation is liquidated over the life of the lease. Other leases are operating leases and the related rentals are charged to expense as incurred.

3. Accounts Receivable

	1986	1985
	(thousands of dollars)	
Trade	22,373	34,029
Other	9,234	5,464
	31,607	39,493

4. Fixed Assets

	1986	1985
	(thousands of dollars)	
Buildings, wharves and land	37,659	27,721
Machinery and equipment	28,412	21,306
Vessels and vessel equipment	69,419	50,770
Vessels under capital lease	13,294	15,750
	148,784	115,547
Less accumulated depreciation and amortization	33,230	22,441
	115,554	93,106

5. Other Assets

	1986	1985
	(thousands of dollars)	
Shares of unconsolidated subsidiary companies at cost	214	214
Deferred charges including foreign exchange loss on translation of long-term debt	1,595	1,742
Other investments at cost	74	51
	1,883	2,007

6. Bank Indebtedness

The Company has assigned accounts receivable and inventory to its bank as security for an $80,000,000 operating loan facility.

7. Long-Term Debt

	1986	1985
	(thousands of dollars)	
10% secured debenture maturing in 1988	5,304	7,956
8% trawler mortgage maturing in 1990 (1986 - U.S. $2,407; 1985 - U.S. $3,008)	3,323	4,212
9 5/8% mortgage maturing in 1996 (1986 - U.S. $2,047; 1985 - U.S. $2,174)	2,827	3,043
Bank term debt at U.S. prime rate plus 1/2% repayable in equal monthly instalments (1985 - U.S. $768)	—	1,075
Other secured loans bearing interest rates of between 7 1/2% and 15% maturing at various dates to 1997	1,837	7,070
Unsecured non-interest bearing loans	—	4,921
	13,291	28,277
Capital lease obligations at effective interest rates ranging from 6.3% to 10.6% maturing 1990 - 1991	6,021	7,962
	19,312	36,239
Less current portion	4,841	11,708
	14,471	24,531

Annual repayments of long-term debt are as follows:

	(thousands of dollars)
1987	4,841
1988	4,943
1989	2,400
1990	2,565
1991	1,910
Thereafter	2,653
	19,312

8. Capital

(a) Capital of the Company —
Capital comprises the amount of capital invested by the parent company and the amount of paid up capital of the amalgamating companies adjusted for the effect of the business combination referred to in Note 1 (b).

	1986	1985
	(thousands of dollars)	
Capital stock:		
18 shares issued in exchange for shares of amalgamating companies	16,339	16,339
999,982 shares issued in 1984 in exchange for cash and conversion of debt	88,974	88,974
1,000,000 shares issued in 1986	105,000	105,000
Paid up capital	210,313	210,313
Contributed surplus	80,000	80,000
	290,313	290,313
Deficit accumulated by amalgamating companies	(101,213)	(101,213)
Adjustment to net fixed assets	(22,102)	(22,102)
	166,998	166,998

The Company has authorized capital of 5,000,000 common shares without par value. As at December 31, 1985, 1,000,000 common shares were issued and outstanding. A further investment by the Company's parent in 1,000,000 common shares was recorded in the accounts as at December 31, 1985 pursuant to a shareholders' resolution dated December 23, 1985 and Orders-in-Council of the Governments of Newfoundland and Canada dated prior to December 31, 1985. These shares were issued for cash consideration of $105,000,000 in January, 1986, the proceeds of which were immediately used to reduce bank indebtedness. Prior to the issue of the 999,982 common shares in 1984, the parent company made a cash contribution of $80,000,000.

(b) Subsequent event —
On April 15, 1987 there was a change in ownership of the Company. In order to complete this transaction, FPI Limited was established to hold the shares of the Company. On a consolidated basis FPI Limited is the continuation of the business of the Company and the only changes from these financial statements will be in the component elements of the shareholders' equity as follows:

(i) Capital stock of FPI Limited —
Authorized:

50,000,000 common shares without par value
50,000,000 preference shares without par value

Issued common shares:

	(thousands of dollars)
1,280,000, held by former parent of the Company	16,000
560,000 held by employees	7,000
14,160,000 issued for cash	166,579
Paid up capital	189,579
Less adjustment for accounting purposes to reflect the excess of amounts paid to the former shareholders of the Company over the shareholders' equity of the Company	31,209
	158,370

This is represented by the shareholders' equity of Fishery Products International Limited as follows:

	(thousands of dollars)
Capital (Note 8 (a))	166,998
Deficit	8,628
	158,370

(ii) Options —
FPI Limited has reserved 400,000 common shares for the granting of options under an executive stock option plan and a further 1,200,000 common shares under an employee share purchase plan. Options to purchase 53,500 common shares at an exercise price of $12.50 have been granted under the executive stock option plan. No shares have been acquired under the employee share purchase plan.

9. Profit Sharing

The Company has a policy of sharing profits with all employees computed as 10% of income before profit sharing, income taxes and extraordinary items.

10. Income Taxes

At December 31, 1986 the Company has income tax losses carried forward of approximately $3,300,000 which can be deducted against income earned in Canada prior to 1993.

Charges for depreciation and other amounts, which have not yet been claimed for income tax purposes and hence have not been included in the above, total approximately $67,000,000, of which $12,600,000 cannot be claimed until related trawler refit expenditures have been made.

11. Extraordinary Items

	(thousands of dollars)
Tax benefit resulting from losses carried forward	22,684
Gain on sale of plants net of income taxes of $674	703
Excess of insurance proceeds over book value of a vessel net of income taxes of $826	879
	24,266

12. Segmented Information

	1986	1985
		(thousands of dollars)
Sales:		
Canada (a)	354,149	252,111
Inter-company sales (b)	(300,661)	(205,047)
	53,488	47,064
United States	304,490	231,282
Other	30,686	19,836
	388,664	298,182
Profit (loss) (c):		
Canada	44,757	(15,396)
United States	3,945	(4,831)
Other	(52)	67
	48,650	(20, 160)
Identified assets:		
Canada	238,485	208, 516
United States	42,085	50,726
Other	3,212	5,060
Inter-company accounts	(59,730)	(63,924)
	224,052	200,378

(a) Basis of presentation
Canadian sales includes sales to customers in the United States and other geographic regions.

(b) Transfer pricing
Inter-segment sales are at market price less commission.

(c) Profit (loss)
For the year ended December 31, 1986, profit is income before provision for profit sharing, income taxes and extraordinary items.

13. Commitments and Contingencies

(a) Lease obligations —
Future minimum lease payments, together with the balance of the obligations under capital leases, which are included in long-term debt, amount to:

	(thousands of dollars)
1987	1,620
1988	1,614
1989	1,614
1990	1,795
1991	1,788
	8,431
Less amounts representing interest	2,410
	6,021

(b) Capital commitments —
The company has outstanding capital commitments of $8,400,000.

(c) Contingency —
Fishery Products, Inc. (FP Inc.) is a co-defendant in two anti-trust lawsuits filed in United States District Courts which relate to alleged conspiracies to monopolize sales of certain frozen fish products to a chain of seafood restaurants in the United States. The total amount claimed against FP Inc. as a joint defendant is U.S. $114 million in the first case and is unspecified in the second case. FP Inc. has denied liability to the plaintiffs in each case.

A non-binding "mini-trial" on the first action was held in May, 1986 and the jury found in FP Inc.'s favour. FP Inc. believes it has substantial defenses to the claims advanced against it and that any liability emanating from the lawsuits will not have a materially adverse effect.

FP Inc. is also a co-plaintiff in one of the lawsuits and is claiming unspecified damages against two of the plaintiffs and their major shareholders for trademark infringement based upon a scheme of repackaging and relabelling of FPI products. The court has ruled as to liability in favour of FP Inc.'s counterclaim for trademark infringement but has left to full trial the determination of damages.

(d) Subsequent event —
On March 20, 1987 the lawsuit claiming U.S. $114 million from FP Inc. was settled for an immaterial amount.

Corporate Directory

Board of Directors

Victor L. Young
Chairman and
Chief Executive Officer
Fishery Products International
Limited
St. John's, Newfoundland

Edward W. Best
Partner
Foster Research
Calgary, Alberta

Anthony A. Brait
Chairman and
Chief Executive Officer
Newfoundland Telephone
Company Limited
St. John's, Newfoundland

Henry Collingwood
Chairman and
Chief Executive Officer
Baine, Johnston and Company
Limited
St. John's, Newfoundland

Andrew C. Crosbie
Chairman and
Chief Executive Officer
Crosbie Realty Limited
St. John's, Newfoundland

Paul G. Desmarais
Chairman and
Chief Executive Officer
Power Corporation of Canada
Montreal, Quebec

Lucy C. Dobbin
Executive Director
The General Hospital
Corporation
St. John's, Newfoundland

Janet C. Gardiner
Treasurer
Chester Dawe Limited
St. John's, Newfoundland

James J. Greene, Q.C.
Partner
O'Dea, Greene
St. John's, Newfoundland

J. Howard Hawke
Chairman
Bache Securities Inc.
Toronto, Ontario

Albert E. Hickman
President and
Managing Director
Hickman Motors Limited
St. John's, Newfoundland

William James
Chairman and
Chief Executive Officer
Falconbridge Limited
Toronto, Ontario

Reverend Desmond T. McGrath
Parish Priest
Roman Catholic
Church of Canada
Lourdes, Newfoundland

Roger W. Pike
Chairman and
Chief Executive Officer
Labrador Airways Limited
St. John's Newfoundland

Frank Stronach
Chairman and
Chief Executive Officer
Magna International Inc.
Markham, Ontario

Officers and Senior Management

Fishery Products International Limited

Victor L. Young
Chairman and
Chief Executive Officer

Augustine A. Etchegary
Executive Vice-President,
Resource Management

David G. Norris
Executive Vice-President,
Financial Management

William E. Wells
Executive Vice-President,
Human Resources Management

Ernest C. Bishop
Vice-President,
Sales and Marketing

Kevin J. Coombs
Vice-President,
Industrial Relations

Glenn L. Etchegary
Vice-President,
Trawler Operations

David F. Fifield
Vice-President,
Finance and Administration

Lewis S. Fizzard
Vice-President,
Quality Assurance and
Enhancement

K. Dieter Hohoff
Vice-President,
Engineering

Baxter H. Simms
Vice-President,
Production

Donald G. Sword
Legal Counsel and
Corporate Secretary

Fishery Products, Inc.

Donald J. Short
President and
Chief Operating Officer

H. Berch C. Lake
Executive Vice-President,
Sales and Business Development

Willard R. Fehr
Vice-President,
Financial and
Administrative Services

Thomas C. Heffron
Vice-President,
Marketing and Product
Development

Blaine B. Petersen
Vice-President,
Operations

Head Office

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Telex: 016-3151

Subsidiary Companies

Fishery Products, Inc.
Fishery Products
of Canada Limited
Fishery Products GmbH
Triton Seafoods Limited

Auditors

Peat Marwick
St. John's, Newfoundland

Transfer Agent and Registrar

Montreal Trust Company
of Canada
St. John's, Halifax,
Charlottetown, Saint John,
Montreal, Toronto, Winnipeg,
Regina, Calgary and Vancouver

Banker

The Bank of Nova Scotia

Stock Exchanges

Montreal Exchange
Toronto Stock Exchange
Symbol: FPL